

AR06

UNIVERSITY OF ALBERTA
FACULTY OF BUSINESS ADMINISTRATION
AND COMMERCE
FRANCIS Q. WINSPEAR COLLECTION

PERIGRINE PETROLEUM 1981

PERIGRINE PETROLEUM LTD.

1981
Annual Report

Corporate Information

OFFICERS AND DIRECTORS:

Cameron J. McFeely, P.Eng.
President and Director

Lorna R. Ferris
Secretary and Director

Peter G. Smith -
Director

Charles S. Dunkley, P.Eng.
Director

HEAD OFFICE:

#550 Bow Valley Square 3
255 - 5th Avenue S.W.
Calgary, Alberta T2P 3G6
(403) 265-0980

TRANSFER AGENT:

The Canada Trust Company
Calgary, Alberta

AUDITORS:

Coopers & Lybrand
Calgary, Alberta

STOCK EXCHANGE LISTING:

The Alberta Stock Exchange
Trading Symbol "PGR"

Letter to Shareholders

UNIVERSITY OF ALBERTA
FACULTY OF BUSINESS ADMINISTRATION
AND COMMERCE

FRANCIS G. WINSPEAR COLLECTION

RECEIVED MAR 31 1982

The past year has been a trying and difficult one to say the least. First off, because of the collapsing market for the shares of junior Resource Companies, we were unable to consummate the \$5-million debenture issue upon which we had spent a good deal of time, effort and money. On the advice of our underwriters we shelved the project until better market conditions prevail.

However, in anticipation of the issue and to make it attractive to participants we had committed to a fairly ambitious program of drilling and land acquisition — principally in the United States. When the funds from the proposed issue were not forthcoming these commitments proved extremely difficult to meet and we were therefore forced to reduce these commitments where possible, to borrow from the bank and from a principal shareholder, and to sell some United States properties.

To compound our woes the gold price collapsed along with the other markets and we were not able to finance the decline shaft at the Mosquito Creek mine which we had planned; however, by cutting operating expenses to the bone we have managed to keep the mine operating. The mine is unquestionably the Company's most valuable asset for further growth and ultimately for cash flow to support our oil and gas programs.

The president of The Mosquito Creek Gold Mining Company Limited, Mr. A. H. Jukes, was killed in a tragic accident at the mine October 30, 1981. A small aircraft carrying him and three other passengers crashed on take-off, killing Mr. Jukes, the two pilots and a geologist, Mr. John Lund of E. & B. Explorations who was visiting the mine. Mr. Rick Arndt, an E. & B. engineer, survived the crash, along with Mr. Roger Tourigny, a Director of The Mosquito Creek Gold Mining Company Limited. Needless to say, this accident has been a severe blow. Mr. Jukes was not only a dear friend but was the finder, promoter and guiding hand of the project from its inception, more than ten years ago.

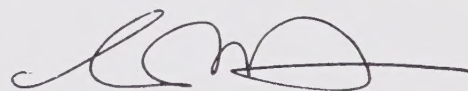
Management of the company has been assumed by Peregrine Petroleum Ltd. and the two companies are now headquartered in the same suite of offices, 550 Bow Valley Square III, 255 - 5th Avenue S.W., Calgary, Alberta, Canada, T2P 3G6.

As promised, in 1981 we distributed our gold dividend in the form of 1/10-ounce gold medallions which were beautifully minted at the Sherritt Mint in Fort Saskatchewan, Alberta. In hindsight, payment of the dividend was probably an extravagance, but it was an exciting and unique gesture and one which we do not regret — a bright spot in a generally dismal year.

To summarize, during 1982 our top priorities will be:

1. Financing of the decline shaft at the Mosquito Creek Gold Mine, so that the mine will be in a position to benefit from a recovery in the gold price.
2. Developing and/or farming out our United States acreage and building up cash flow.
3. Participation and/or generation of plays in Alberta wherever the "new-oil" price can be realized.

Submitted on behalf of the Board



C. J. McFeely, P.Eng.
President

Gold Dividend

For the benefit of shareholders holding less than 1,000 shares, a market has been arranged for the partial certificates by Columbia Securities Limited, Suite 800, 600 - 12th Avenue S.W., Calgary, Alberta, Canada, T2R 0H5, telephone number (403) 237-7844.

Mosquito Creek Gold Mine

The situation at the gold mine is unchanged. We are able to produce only approximately 800-900 ounces of gold per month and need the proposed decline shaft in order to boost our production to approximately 2,000 ounces per month.

Our top priority during 1982 will be to obtain this objective and by so doing, expose ourselves to a very substantial earning potential when the price of gold turns around — as it inevitably will.

Ore reserves are being maintained, although it is distressing to have to exploit them at today's prices.

The Wessex Gold Refinery

(Peregrine Petroleum Ltd. — 25%)

This venture did not work out — three new refineries were opened in the Vancouver area and therefore our group decided to withdraw in the face of such fierce competition. The refining equipment was sold to Engelhard and the building and land are being disposed of.

Wyoming Coal Project

(Peregrine Petroleum Ltd. — 50%)

Owing to title complications with respect to Wyoming lease #023733, we hedged ourselves by applying for a 25,000-acre exploration licence adjacent to the lease. This permit is expected to be issued in March, 1982. We have negotiated a deal with Ramm Venture Corp. of Vancouver whereby, upon issue of the permit, they will purchase an 80% interest in the permit by a series of payments totalling \$1-million (U.S.).

Oil and Gas

Anadarko Basin, Oklahoma (Peregrine Petroleum Ltd. — 2.5%)

Our development program on our two nine-section blocks proved to be disappointing with only one well of four indicating commercial production. We therefore, will not participate in any further wells on these two blocks.

Jantar Joint Venture, Oklahoma (Peregrine Petroleum Ltd. — 20%)

Our lease acquisitions resulting from this joint venture look very promising. Some of the leases are offset by drilling wells and all of the leases are located in areas of intense activity. We participated to 20% in one Jantar play which has resulted in an indicated Bartlesville Sand oil discovery. This well is being production tested and looks as though it will stabilize at around 40 barrels per day.

North Santa Clara Prospect (Peregrine Petroleum Ltd. — 3.75%)

To date, six wells have been drilled on this project, five producers and one possible producer. Because of the high drilling and completion costs and the lower than expected average producing rates of these wells, indicated payouts were in the order of four to five years. Furthermore, this lease requires continuous drilling and, as it was not possible to obtain adequate bank financing to service the cash demands of the program, we decided to sell our interest in this project. We have negotiated a sale of our interest for approximately \$450,000 U.S. — which is about twice our cost to date for the project.

U.S. Wildcat Plays

We acquired two large blocks; 70,000 acres (Peregrine — 8%) and 50,000 acres (Peregrine — 50%) in Montana. Two dry holes were drilled on the large block and the acreage was then sold. We still retain the 50,000 acre block and hope to promote some wildcat drilling on it this year.

Our first well on our 22,000 acre block in South Dakota (Peregrine — 12.5%) was dry; however, there were indications of shallow gas and we are attempting to farm out this property for shallow gas development.

We sold our interest in the McGee Valley project in Montana to Marietta Resources Ltd., recovering our costs and retaining a block of shares in that company. In Cook Inlet, Alaska, (13,000 acres, Peregrine — 5%), we have granted an option to support a proposed wildcat test offsetting our acreage to the east.

Canada

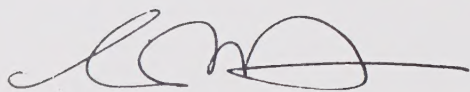
We obtained industrial gas contracts for our new well at Joffre (Peregrine — 6.6%) and our capped well at Enchant, Alberta (Peregrine — 30% to payout, then 15%). Both wells are delivering approximately two million cubic feet per day. We completed and tied in a new gas well at Wainwright, Alberta (Peregrine — 30%) which is currently producing 400 Mcf/day to a TransCanada contract. At Wildmere we have tied in a Colony gas well (Peregrine 6.25%) into a Husky project and expect to commence gas sales this year. At Holmberg we now have a total of thirteen gas wells (Peregrine — 1.56% - 2.5%) of which currently only two are producing. Several more are being tied in this year.

Consolidated Balance Sheet

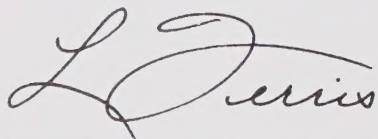
as at September 30, 1981

	1981 \$	1980 \$
ASSETS		
CURRENT ASSETS		
Cash	51,333	73,808
Accounts receivable (note 2)	208,698	1,752,211
Inventory	65,000	
Marketable securities — at cost, quoted market value		
\$195,000 — 1980 \$787,000 (note 3)	161,927	146,599
	<u>486,958</u>	<u>1,972,618</u>
PROPERTY AND EQUIPMENT — at cost (notes 2, 4, 6, and 11)	4,736,920	4,961,070
NOTES RECEIVABLE, less current portion (note 6)	403,000	
OTHER ASSETS	<u>2,500</u>	<u>2,500</u>

SIGNED ON BEHALF OF THE BOARD



Director

5,629,3786,936,188


Director

	1981 \$	1980 \$
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	399,574	883,174
Dividend payable (note 7)	43,874	
Due to related parties (note 5)	1,309,695	644,603
Obligation under capital lease, current portion	21,000	19,100
Advance from a shareholder (note 5)	21,561	250,561
Bank loan, current portion (note 2)		300,000
	<u>1,795,704</u>	<u>2,097,438</u>
LONG-TERM DEBT		
Bank loan (note 2)	1,116,200	283,973
Obligation under capital lease, less current portion	153,863	100,900
9½% convertible subordinated debenture		450,000
	<u>1,270,063</u>	<u>834,873</u>
DEFERRED INCOME TAXES	<u>—</u>	<u>481,000</u>
	<u>3,065,767</u>	<u>3,413,311</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
Authorized —		
10,000,000 shares without nominal or par value		
Issued and fully paid —		
4,755,262 shares (1980 — 3,345,262 shares)	4,943,110	3,450,110
RETAINED EARNINGS (DEFICIT) (note 7)	(2,379,499)	72,767
	<u>2,563,611</u>	<u>3,522,877</u>
	<u>5,629,378</u>	<u>6,936,188</u>

Consolidated Statement of Earnings

For the Year Ended September 30, 1981

	1981 \$	1980 \$
INCOME		
Production — mine	2,176,078	
— oil and gas	224,300	713,793
	<u>2,400,378</u>	<u>713,793</u>
EXPENSES		
Production — mine	2,061,553	
— oil and gas	80,243	124,714
Dividend minting (note 7)	128,935	
General and administrative	259,394	102,705
Interest — long-term debt	131,293	222,513
— current	105,107	100,133
Lease rentals	6,617	5,644
	<u>2,773,142</u>	<u>555,709</u>
EARNINGS (LOSS) BEFORE OTHER CHARGES	<u>(372,764)</u>	<u>158,084</u>
OTHER CHARGES		
Depletion and depreciation — mine	1,767,050	
Depletion and depreciation — oil and gas	89,029	52,367
Dry holes and abandonments — oil and gas	453,689	221,180
Mining claims abandoned	96,998	242,520
	<u>2,406,766</u>	<u>516,067</u>
	<u>(2,779,530)</u>	<u>(357,983)</u>
OTHER INCOME		
Gain on sale of marketable securities	52,965	147,835
Gain on sale of interests in oil and gas properties	24,392	2,289,875
	<u>77,357</u>	<u>2,437,710</u>
	<u>(2,702,173)</u>	<u>2,079,727</u>
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Deferred	(481,000)	740,000
Alberta royalty tax credit	(4,500)	(46,400)
	<u>(485,500)</u>	<u>693,600</u>
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEM	<u>(2,216,673)</u>	<u>1,386,127</u>
EXTRAORDINARY ITEM		
Income tax reduction on carry-forward of losses		133,000
NET EARNINGS (LOSS) FOR THE YEAR	<u>(2,216,673)</u>	<u>1,519,127</u>

Consolidated Statement of Retained Earnings

For the Year Ended September 30, 1981

	1981 \$	1980 \$
RETAINED EARNINGS (DEFICIT) — BEGINNING OF YEAR	72,767	(1,446,360)
Net earnings (loss) for the year	(2,216,673)	1,519,127
	(2,143,906)	72,767
Dividend (note 7)	235,593	
RETAINED EARNINGS (DEFICIT) — END OF YEAR	(2,379,499)	72,767

Consolidated Statement of Changes in Financial Position

For the Year Ended September 30, 1981

	1981 \$	1980 \$
SOURCE OF WORKING CAPITAL		
Proceeds on issuance of capital stock	1,493,000	1,050,000
Less: Conversion of subordinated debenture to capital stock	(450,000)	
Less: Notes receivable on issuance of capital stock	(403,000)	
	640,000	1,050,000
Proceeds from sale of properties	108,405	2,750,596
Increase in bank loan	832,227	
Net changes in other assets and liabilities	52,963	34,400
	1,633,595	3,834,996
USE OF WORKING CAPITAL		
Used in operations —		
Earnings (loss) before extraordinary item	2,216,673	(1,386,127)
Items not affecting working capital —		
Depletion and depreciation — mine	(1,767,050)	
Depletion and depreciation — oil and gas	(89,029)	(52,367)
Dry holes and abandonments — oil and gas	(453,689)	(221,180)
Mining claims abandoned	(96,998)	(242,520)
Gain on sale of petroleum and natural gas properties	24,392	2,289,875
Deferred income taxes	481,000	(740,000)
	315,299	(352,319)
Additions to property and equipment	2,266,629	2,844,044
Dividend	235,593	
Payments on long-term debt		342,427
	2,817,521	2,834,152
INCREASE (DECREASE) IN WORKING CAPITAL DEFICIENCY	1,183,926	(1,000,844)
WORKING CAPITAL DEFICIENCY — BEGINNING OF YEAR	124,820	1,125,664
WORKING CAPITAL DEFICIENCY — END OF YEAR	1,308,746	124,820

Notes to Consolidated Financial Statements

For the Year Ended September 30, 1981

1. ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Peregrine Petroleum Ltd. and its wholly-owned subsidiary, Peregrine Petroleum Inc.

Petroleum and natural gas properties

The company's accounting policy is to capitalize acquisition costs attributed to petroleum and natural gas properties. When properties are surrendered, the costs are written off as an expense in the year of abandonment. Lease rentals are expensed when incurred. Costs of drilling and equipping successful exploratory and development wells are capitalized. Gains or losses on dispositions of petroleum and natural gas properties are included in income and the costs of dry holes and abandonments are expensed.

Depletion and depreciation of the acquisition and development costs of producing properties and production equipment are calculated using the unit-of-production method, based upon proven recoverable reserves.

Mining properties

Acquisition costs and exploration and development expenditures relating to mining properties are deferred until the properties are brought into commercial production, at which time they are depleted on a unit-of-production basis, or until the properties are abandoned or sold, at which time the related costs are written-off.

Joint ventures

Substantially all of the company's exploration and production activities are conducted jointly with others and the accounts reflect only the company's proportionate interest in such activities.

Inventory

Inventory represents unsold gold and is valued at net realizable value which is less than cost.

Capital leases

Where the company acquires an asset through a lease under which substantially all the benefits and risks of ownership of the asset pass to the company, the company accounts for such a lease as a capital lease. The asset is recorded on the balance sheet at the lower of its fair market value and the present value of the future lease payments and a corresponding liability is set up as an obligation under a capital lease.

Translation of foreign currencies

Current assets and liabilities are translated into Canadian dollars at year-end exchange rates and non-current assets and liabilities at the exchange rates prevailing when the assets were acquired or the liabilities incurred. Revenue and expenses with the exception of depreciation and depletion are translated at the average annual rates of exchange. Depreciation and depletion are translated at the rates used in the translation of the relevant asset accounts. Gains or losses resulting from exchange adjustments are included in net earnings.

2. BANK LOAN

Book debts and production proceeds from petroleum and natural gas and mining properties have been pledged as security for the bank loan, which bears interest at 1½% above the company's banker's prime lending rate.

Although the bank loan is subject to call on demand, the company does not anticipate repayment within the next twelve months.

3. MARKETABLE SECURITIES

The marketable securities consist of the following:

	1981		1980	
	#	\$	#	\$
Tyee Lake Resources Ltd. (N.P.L.)	56,000	66,117	243,000	95,617
The Mosquito Creek Gold Mining Company Limited (N.P.L.)	85,600	36,608	107,400	45,982
Maxville Mines Ltd.	15,000	5,000	15,000	5,000
Marietta Resource Corporation	75,000	54,202		
		<u>161,927</u>		<u>146,599</u>

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation and Depletion	Net Investment	
	\$	\$	1981 \$	1980 \$
Petroleum and natural gas				
Properties	2,461,813	179,575	2,282,238	1,378,774
Production equipment	458,868	58,815	400,053	173,702
	<u>2,920,681</u>	<u>238,390</u>	<u>2,682,291</u>	<u>1,552,476</u>
Mineral				
Properties	2,596,983	1,133,460	1,463,523	2,343,042
Production equipment	1,195,444	633,590	561,854	1,047,568
	<u>3,792,427</u>	<u>1,767,050</u>	<u>2,025,377</u>	<u>3,390,610</u>
Office equipment	44,811	15,559	29,252	17,984
	<u>6,757,919</u>	<u>2,020,999</u>	<u>4,736,920</u>	<u>4,961,070</u>

5. RELATED PARTY TRANSACTIONS

The company's major shareholder and president is the major shareholder of Redco Explorations Ltd. (Redco) and Camac Explorations, Inc. (Camac), two privately controlled companies. The company participates with Redco and Camac in the exploration and development of petroleum and natural gas properties. During the year the company expended \$106,000 (1980 — \$260,000) on petroleum and natural gas properties in which Redco or Camac have an interest. In addition the company received \$88,000 (1980 — \$14,000) in net production revenue and \$Nil (1980 — \$443,000) in sale proceeds from petroleum and natural gas properties jointly held with Redco. The company also paid interest expense of \$108,000 (1980 — \$57,000) on advances

outstanding from Redco calculated at a rate of 19% (1980 — 12%) per annum together with \$24,000 (1980 — \$24,000) in management fees to Redco.

Subsequent to the year-end, the company's major shareholder and president sold his shares in Redco.

The advance from a shareholder has no fixed repayment terms and is subject to interest at the rate of ½% above the interest paid by the company to the bank.

6. CAPITAL STOCK

- (a) As at January 30, 1981 the principal amount of the 9½% convertible subordinated debenture was converted into 1,125,000 shares of the company at \$.40 per share.
- (b) On January 30, 1981 an option was exercised whereby 100,000 shares of the company were issued at \$3.00 per share.
- (c) On October 24, 1980, 100,000 shares were issued to directors of the company at a price of \$4.03 per share, the amount to be paid over a five year period in equal annual installments without interest; the shares to be held in trust until paid in full.

On September 21, 1981, the directors of the company cancelled the 100,000 shares issued on October 24, 1980 in consideration for the cancellation of the notes receivable. The regulatory approval has not as yet been received and as a result the cancellation of the shares has not been reflected in the financial statements.

- (d) During the year, the company issued 85,000 shares as consideration for interests in various petroleum and natural gas properties. The value ascribed to these shares was \$340,000.
- (e) On April 21, 1981 the company amended their authorized share capital from 7,000,000 shares without nominal or par value, maximum consideration of \$3,000,000 to 10,000,000 shares without nominal or par value.

7. DIVIDEND

During the year the company declared a dividend payable to shareholders of record on June 30, 1981. The dividend is in the form of a 1/10 ounce gold medallion for every 1,000 shares owned. Shareholders with less than 1,000 shares will be issued fractional certificates which may be accumulated until they have fractional certificates equivalent to 1,000 shares.

8. EARNINGS PER SHARE

	1981 \$	1980 \$
Basic		
Earnings (loss) before extraordinary item	(.54)	.50
Net earnings (loss) for the year	(.54)	.54

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years.

9. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the company to the directors and officers of the company amounted to \$Nil (1980 — \$Nil).

10. SEGMENTED INFORMATION

	Canada \$	United States \$	Consolidated \$
1981			
Segment operating profit (loss)			
From oil and gas	(344,810)	(88,472)	
From mining	<u>(1,944,020)</u>	<u>(88,471)</u>	
	<u>(2,288,830)</u>	<u>(176,943)</u>	<u>(2,465,773)</u>
General corporate expenses			
Interest			236,400
Income taxes			<u>(485,500)</u>
Net Earnings			<u>(2,216,673)</u>
Identifiable assets			
Mining	2,404,788	378,198	2,782,986
Oil and gas	<u>2,480,319</u>	<u>366,073</u>	<u>2,846,392</u>
	<u>4,885,107</u>	<u>744,271</u>	<u>5,629,378</u>
1980			
Segment operating profit (loss)			
From oil and gas	2,860,941	(216,048)	
From mining	<u>(242,520)</u>		
	<u>2,618,421</u>	<u>(216,048)</u>	<u>2,402,373</u>
General corporate expenses			
Interest			322,646
Income taxes			<u>560,600</u>
Net earnings			<u>1,519,127</u>
Identifiable assets			
Mining	3,390,610		3,390,610
Oil and gas	<u>2,825,584</u>	<u>719,994</u>	<u>3,545,578</u>
	<u>6,216,194</u>	<u>719,994</u>	<u>6,936,188</u>

11. SUBSEQUENT EVENT

Subsequent to year-end, the president of the company also became president of The Mosquito Creek Gold Mining Company Limited (Mosquito Creek). Mosquito Creek is the company's joint venture partner in a substantial portion of the company's investment in mineral properties.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Peregrine Petroleum Ltd. as at September 30, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1981 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
January 30, 1982

Coopers & Lybrand
Chartered Accountants

PEREGRINE PETROLEUM LTD.

Annual Report 1981